

Message Text

PAGE 01 STATE 141271
ORIGIN AF-03

INFO OCT-01 SS-05 ISO-00 SSO-00 /009 R

66011

DRAFTED BY: AF/C:RKATES
AF/C:LJUNIOR

-----071073 040218Z /62

O 040139Z JUN 78
FM SECSTATE WASHDC
TO USCINCEUR IMMEDIATE
CINCMAC IMMEDIATE
USNMR SHAPE IMMEDIATE
JCS WASHDC IMMEDIATE 0000
DOD WASHDC IMMEDIATE
CINCUSAFE IMMEDIATE

S E C R E T STATE 141271

LIMDIS

FOLLOWING REPEAT KINSHASA 5675 SENT ACTION SECSTATE 02 JUN 78

QUOTE S E C R E T KINSHASA 5675

FOR IMMEDIATE DELIVERY TO AF DAS WALKER

LIMDIS

E.O. 11652: GDS
TAGS: ECON, EAID, CG, US
SUBJECT: ESSENTIAL ZAIRIAN ECONOMIC REFORMS

REF: A)77 KINSHASA 11236, B) KINSHASA 5655

1. SUMMARY: AS CONDITIONS PRECEDENT FOR INCREASED
ECONOMIC ASSISTANCE OTHER THAN FOR EMERGENCY FOOD OR REFUGEE
SECRET

PAGE 02 STATE 141271

PURPOSES, WE SHOULD INSIST UPON ECONOMIC REFORMS. THESE WOULD
INCLUDE: A) INSTALLATION OF AN IMF TEAM TO CONTROL CENTRAL BANK
FOREIGN EXCHANGE ALLOCATION; B) BELGIAN EXPERTS TO IMPROVE
CUSTOMS COLLECTION; C) A NEW IMF STANDBY, AND WE SHOULD RELATE
OUR CONTINUED ASSISTANCE TO COMPLIANCE WITH ITS TERMS; D) GREATER
EFFORTS TO ENSURE FOREIGN EXCHANGE REPATRIATION; E) MORE
RATIONAL ALLOCATION OF RESOURCES; F) BETTER COMPLIANCE WITH
PREVIOUS OFFICIAL DEBT RESCHEDULING AGREEMENTS AND ANOTHER
AGREEMENT WITH THE PRIVATE BANKS WHICH IS BETTER SUITED THAN THE
LONDON ACCORD TO ZAIRE'S CHANGED CIRCUMSTANCES.

END SUMMARY

2. IN ADDITION TO THE POLITICAL REFORMS WHICH I HAVE RECOMMENDED (REF B), WE BELIEVE THAT WE SHOULD ALSO INSIST UPON KEY ECONOMIC REFORMS AS CONDITIONS PRECEDENT FOR ECONOMIC ASSISTANCE OTHER THAN EMERGENCY FOOD OR REFUGEE ASSISTANCE.

3. LAST NOVEMBER WHEN WE REPORTED AND COMMENTED (REF A) CONCERNING MOBUTU'S ANNOUNCEMENT OF THE MOBUTU PLAN, WE NOTED THAT HE ACCURATELY AND RATHER COURAGEOUSLY DESCRIBED SOME OF THE MAJOR ECONOMIC PROBLEMS OF THE COUNTRY, SUCH AS ILLEGAL IMPORTS AND EXPORTS, FAILURE TO PAY CUSTOMS TAXES AND EXCESSIVE PRICE MARK-UPS. WE COMMENTED THAT THE ZAIRIAN ELITE, INCLUDING MOBUTU'S CLOSE RELATIVES, ARE AMONG THE CHIEF PERPETRATORS OF THESE ACTIONS AND CONCLUDED BY STATING THAT IT REMAINED TO BE SEEN IF HE WOULD OR COULD CORRECT THESE ABUSES BY THE ELITE. DESPITE PLANS, AS OF NOW THERE HAS BEEN NO CORRECTION OF THE ABUSES THAT HE CITED, AND THE ONLY CHANGES SO FAR--SUCH AS THE ELIMINATION OF AUTHORIZATION TO IMPORT GOODS WITHOUT A FOREIGN EXCHANGE ALLOCATION (SAD)--HAVE BEEN COSMETIC RATHER THAN REAL. IN HIS SPEECH MOBUTU STATED THAT HE WOULD REQUEST IMF TECHNICAL ASSISTANCE IN RUNNING THE BANK OF ZAIRE AND THAT HE WOULD TAKE STEPS TO IMPROVE THE
SECRET

PAGE 03 STATE 141271

CUSTOMS SERVICE. DESPITE PLANS, NEITHER OF THESE ACTIONS HAVE YET OCCURRED. FOREIGN EXCHANGE ALLOCATION CONTINUES TO BE AS ERRATIC AS BEFORE AND CUSTOMS EVASION IS WIDESPREAD. FOR EXAMPLE, BASED UPON PROJECTION OF THE PRESENT TRENDS, OFFICIAL COFFEE EXPORTS THIS YEAR WILL BE NO MORE THAN 50,000 MT. ANOTHER 30,000 MT WILL BE OR HAVE BEEN EXPORTED ILLEGALLY THIS YEAR.

4. ONLY THIS WEEK CENTRAL BANK GOVERNOR BOFOSSA REITERATED TO US THAT THE GOZ HAS AGREED THAT AN IMF TEAM WILL HAVE AUTHORITY AS TO ALLOCATION OF THE CENTRAL BANK'S FOREIGN EXCHANGE AND THAT BELGIAN EXPERTS SHOULD BE PLACED IN THE CUSTOMS SERVICE. BOFOSSA CLAIMS THAT THEY ARE WAITING FOR THE IMF TO NAME THE TEAM CHIEF AND FOR THE BELGIANS TO SELECT THE EXPERTS FOR THE CUSTOMS SERVICE. REGARDLESS OF WHO IS RESPONSIBLE FOR THE DELAY, INSTALLATION OF THESE EXPERTS SHOULD BE A CONDITION PRECEDENT FOR NEW ECONOMIC ASSISTANCE TO ZAIRE, AND CONTINUED ECONOMIC ASSISTANCE SHOULD BE CONTINGENT UPON THESE INDIVIDUALS BEING ACCORDED REAL CONTROL OVER FOREIGN EXCHANGE ALLOCATION AND THE CUSTOMS SERVICE.

5. ADDITIONAL CONDITIONS PRECEDENT FOR ECONOMIC ASSISTANCE SHOULD BE:

A) A STANDBY AGREEMENT WITH THE IMF.

THIS IS THE MOST APPROPRIATE VEHICLE TO ENSURE CONTROL OVER PRESIDENTIAL SPENDING AND THE SIZE OF THE BUDGET DEFICIT.

THE IMF STANDBY SHOULD BE CLOSELY MONITORED AND CONTINUED ASSISTANCE RELATED TO COMPLIANCE WITH ITS TERMS.

B) GREATER EFFORTS TO ENSURE FOREIGN EXCHANGE REPATRIATION. INSTALLATION OF BELGIAN EXPERTS IN THE CUSTOMS SERVICE WILL HELP GREATLY. HOWEVER, THE PROBLEM IS SO PERVASIVE THAT ADDITIONAL MEASURES ARE REQUIRED. COFFEE EXPORTERS WHO ARE KNOWN SHOULD BE MADE TO ACCOUNT FOR THEIR EXPORT RECEIPTS AND ATTEMPTS SHOULD BE MADE TO FORCE REPATRIATION OF FUNDS HELD ABROAD, PARTICULARLY FROM COFFEE SALES. THIS WILL AFFECT KEY MEMBERS OF THE GOZ ELITE, BUT IT IS FAIRLY EASY TO DOCUMENT
SECRET

PAGE 04 STATE 141271

AND COULD YIELD SUBSTANTIAL FOREIGN EXCHANGE. MOBUTU HIMSELF SHOULD LEAD THE LIST AS HIS LATE WIFE WAS ONE OF ZAIRE'S PRINCIPAL COFFEE EXPORTERS AND SUCH EXPORTS ARE DOCUMENTED.

C) MORE RATIONAL ALLOCATION OF RESOURCES.
WE BELIEVE THAT A STRONG CENTRAL GOVERNMENT IS THE MOST EFFECTIVE MEANS OF ADMINISTERING A COUNTRY AS LARGE AND AS UNDEVELOPED AS ZAIRE. ECONOMIC DECENTRALIZATION COULD WELL CREATE MORE PROBLEMS THAN IT WILL SOLVE. HOWEVER, THE CENTRAL AUTHORITIES MUST MAKE COMMITMENTS TO EFFECT A MORE EQUITABLE DIVISION OF THE "PIE". FOR EXAMPLE, THE DEMAND FOR PETROLEUM PRODUCTS IS APPROXIMATELY \$12-\$14 MILLION MONTHLY, WHILE FOREIGN EXCHANGE HAS BEEN SUFFICIENT DURING THE PAST SEVERAL YEARS TO COVER IMPORTS OF ONLY APPROXIMATELY \$9 MILLION MONTHLY. HOWEVER, THERE HAS BEEN NO ATTEMPT TO RATION THE AMOUNT OF PETROLEUM PRODUCTS AVAILABLE OR TO EVEN MAKE AN ECONOMIC JUSTIFICATION FOR AN ALLOCATION WHICH MIGHT FAVOR CERTAIN REGIONS. MOBUTU SIMPLY INSTRUCTED PETRO ZAIRE TO MAKE AVAILABLE ALL SUPPLIES THAT KINSHASA WANTED, WITH ANYTHING LEFT OVER TO BE MADE AVAILABLE TO THE INTERIOR OF THE COUNTRY. AS A RESULT, AGRICULTURAL PRODUCTION IN THE INTERIOR HAS FALLEN BECAUSE OF A LACK OF PETROLEUM PRODUCTS. SIMILARLY WHEN WHEAT SHIPMENTS HAVE BEEN REDUCED, THE FLOUR COMPANY HAS BEEN ORDERED TO SUPPLY KINSHASA FIRST AND THEN GIVE ANYTHING LEFT OVER TO THE INTERIOR. A FAIRER ALLOCATION OF RESOURCES IS JUSTIFIED, NOT ONLY ON PRINCIPLES OF EQUITY BUT SO AS TO MAXIMIZE PRODUCTION AND TO HALT URBAN MIGRATION. PARTICULAR ATTENTION SHOULD BE GIVEN TO THE LEGITIMATE REQUIREMENTS OF THE SHABA WHICH HAS BEEN THE SOURCE OF MOST OF ZAIRE'S WEALTH.

D. OFFICIAL DEBT RESCHEDULING.
GENEROUS DEBT RESCHEDLING IS GOING TO BE REQUIRED FOR ZAIRE
SECRET

PAGE 05 STATE 141271

AS THE RESOURCES ARE SIMPLY NOT AVAILABLE TO SERVICE THE DEBT. THE ALTERNATIVE WILL BE A FORMAL OR A DE FACTO MORATORIUM. WE SHOULD PROCEED SOONEST WITH GENEROUS RESCHEDULING FOR 1978 AND POSSIBLY 1979, BUT PUT PRESSURE UPON THE GOZ TO COMPLY WITH THE

TERMS OF THE PREVIOUS RESCHEDULING AGREEMENTS. SUCH PAYMENTS ARE RELATIVELY SMALL AND SHOULD BE MADE IN ORDER TO RESTORE ZAIRE'S CREDIBILITY AND ALSO BECAUSE OF LEGAL RESTRICTIONS UPON OURSELVES AND OTHERS RESTRICTING ASSISTANCE WHEN DEBT PAYMENTS ARE DELINQUENT.

E. PUBLIC DEBT RESCHEDULING.

WE DO NOT RECOMMEND THAT WE PRESS THE GOZ TO PROCEED WITH THE LONDON BANK AGREEMENT AS, UNDER PRESENT CIRCUMSTANCES, IT DOES NOT APPEAR TO BE REALISTIC. GOVERNOR BOFOSSA TOLD US THAT PAYMENTS DUE PRIVATE BANKS NOW TOTAL \$196 MILLION, WHEREAS THE GOZ HAS ONLY \$85 MILLION IN THE BIS ACCOUNT SET ASIDE FOR THESE PAYMENTS. BOFOSSA HAD NO IDEA WHERE HE COULD RAISE THE ADDITIONAL \$111 MILLION DUE THE PRIVATE BANKS, AND NEITHER DO WE. WE SHOULD ENCOURAGE THE GOZ AND THE PRIVATE BANKS TO NEGOTIATE A RESCHEDULING OR ANOTHER AGREEMENT MORE APPROPRIATE TO ZAIRE'S CHANGED CIRCUMSTANCES.

CUTLER

UNQUOTE CHRISTOPHER

SECRET

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: Z
Capture Date: 26 sep 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, ECONOMIC ASSISTANCE
Control Number: n/a
Copy: SINGLE
Draft Date: 04 jun 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE141271
Document Source: ADS
Document Unique ID: 00
Drafter: AF/C:RKATES
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Expiration:
Film Number: D780233-0533
Format: TEL
From: STATE
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197806115/baaaeyuw.tel
Line Count: 186
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Message ID: 802c4f7e-c288-dd11-92da-001cc4696bcc
Office: ORIGIN AF
Original Classification: SECRET
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: SECRET
Previous Handling Restrictions: LIMDIS
Reference: A)77 KINSHASA 11236, B) KINSHASA 5655
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 02 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2176534
Secure: OPEN
Status: NATIVE
Subject: ESSENTIAL ZAIRIAN ECONOMIC REFORMS
TAGS: ECON, EAID, CG, US
To: USCINCEUR CINCMAC MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/802c4f7e-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014